

Allegion (Ireland) Finance Designated Activity Company

Annual Report

Financial year ended 31 December 2019

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DIRECTORS AND OTHER INFORMATION

BOARD OF DIRECTORS	David Carrick Paul O'Loughlin Jeffrey Braun (resigned 14 October 2019) Michael Wagnes (appointed 14 October 2019 and resigned 1 March 2020) Thomas Martineau (appointed 1 March 2020)
SECRETARY	Paul O'Loughlin
REGISTERED OFFICE	Block D Iveagh Court Harcourt Road Dublin 2
REGISTERED NUMBER	582665
SOLICITORS	Arthur Cox Ten Earlsfort Terrace Dublin 2
PRINCIPAL BANKERS	Citibank 33 Canada Square Canary Wharf London E14 5LB England
AUDITORS	PricewaterhouseCoopers One Spencer Dock North Wall Quay Dublin 1

DIRECTORS' REPORT

The directors present their report and the audited financial statements for Allegion (Ireland) Finance Designated Activity Company ("the Company") for the year ended 31 December 2019.

PRINCIPAL ACTIVITY AND FUTURE DEVELOPMENTS

The Company is a wholly owned subsidiary of Allegion Plc. During the financial year, the Company issued Note A-1 and Note A-2 (collectively the "Notes") to a fellow group undertaking. The Notes are listed on The International Stock Exchange ("TISE") and the proceeds from the issuance of the Notes were used to acquire an intercompany loan receivable portfolio from fellow group undertakings.

The principal activity of the Company is to provide financing to entities within the Allegion group. The directors do not expect that the Company's activity will change in the foreseeable future.

RESULTS FOR THE YEAR AND STATE OF AFFAIRS AT 31 DECEMBER 2019

The profit and loss account and the balance sheet are set out on pages 10 and 11 respectively. The Company recorded a profit of \$0.5 million for the financial year ended 31 December 2019 (2018: \$nil).

IMPORTANT EVENTS SINCE YEAR END

Resignation of director

On 1 March 2020, Michael Wagnes a member of the Board of Directors of the Company resigned from the Board.

Appointment of director

On 1 March 2020, Thomas Martineau was appointed as a member of the Board of Directors of the Company.

COVID-19 pandemic

In March 2020, a global pandemic was declared by the World Health Organization ("WHO") related to the rapidly growing outbreak of the novel coronavirus ("COVID-19"). This pandemic has created significant uncertainties in the global economy. However, the Company does not believe there is any adjusting or non adjusting subsequent events which may impact the amounts recorded at 31 December 2019 including the carrying value and recoverability of its intercompany loan receivable portfolio. The COVID-19 situation is rapidly changing and additional impacts to the business may arise that the Company is not aware of currently.

Refinancing of term loan

In April 2020, the Company refinanced its \$25.0 million term loan with a group undertaking. The refinanced loan's maturity date is 25 April 2023 and the effective interest rate is 2.4975%.

Interest capitalisation

In April 2020, the Company capitalised \$118.6 million of interest accrued on the Notes owed to a group undertaking. The capitalised interest balance will be subject to the terms and conditions of the Notes.

There have been no other important events since the period end which require disclosure in the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

It is the policy of the directors to identify the key risks facing the Company, to assess (with appropriate professional advice) the level of risk and to manage those risks so as to ensure as far as reasonably possible the continuing operation of the Company. The principal risks identified by the Company relate to (i) the recoverability of its intercompany loan receivable portfolio and (ii) the interest rate risk associated with the different London Interbank Offered Rate ("LIBOR") reset dates on the Company's loans from group undertakings and its loans to group undertakings.

ACCOUNTING RECORDS

The measures taken by the directors to secure compliance with the Company's obligation to keep adequate accounting records are the use of appropriate systems and procedures and employment of competent persons. The accounting records are kept at Block D, Iveagh Court, Harcourt Road, Dublin 2.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report and the financial statements in accordance with Irish law. Irish law requires the directors to prepare financial statements for each financial year giving a true and fair view of the Company's assets, liabilities and financial position at the end of the financial year and the profit or loss of the Company for the financial year.

Under that law the directors have prepared the financial statements in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard

DIRECTORS' REPORT

102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and promulgated by the Institute of Chartered Accountants in Ireland and Irish law). Under Irish law, the directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the Company's assets, liabilities and financial position as at the end of the financial year and the profit or loss of the Company for the financial year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards and identify the standards in question, subject to any material departures from those standards being disclosed and explained in the notes to the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to:

- correctly record and explain the transactions of the Company;
- enable, at any time, the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy; and
- enable the directors to ensure that the financial statements comply with the Companies Act 2014 and enable those financial statements to be audited.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITORS

The directors in office at the date of this report have each confirmed that:

- As far as he is aware, there is no relevant audit information of which the Company's statutory auditors are unaware; and
- He has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's statutory auditors are aware of that information.

POLITICAL DONATIONS

No political donations have been made by the Company during the year (2018: \$nil).

DIVIDENDS

No dividends were paid or proposed during the year (2018: \$nil).

GOING CONCERN

The directors have formed a judgment at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion, the directors have taken account of current and anticipated uncertainties driven by the COVID-19 pandemic in its going concern assessment including the recoverability of its intercompany loan receivable portfolio and its ability to pay or discharge all its debts, other liabilities, obligations and expenses as they fall due. The directors believe that these uncertainties would not have a material impact on the Company's ability to continue as a going concern as of the approval date. For this reason, the going concern basis continues to be adopted in the preparation of the Company financial statements.

AUDITORS

The Auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the board meeting approving these audited financial statements.

On behalf of the Directors

Paul O'Loughlin

Paul O'Loughlin
Director

David Carrick

David Carrick
Director



Independent auditors’ report to the members of Allegion (Ireland) Finance Designated Activity Company

Report on the audit of the financial statements

Opinion

In our opinion, Allegion (Ireland) Finance Designated Activity Company’s financial statements:

- give a true and fair view of the company’s assets, liabilities and financial position as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and Irish law); and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the Annual Report, which comprise:

- the Balance Sheet as at 31 December 2019;
- the Profit and Loss Account and statement of comprehensive income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (“ISAs (Ireland)”) and applicable law.




Our responsibilities under ISAs (Ireland) are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA’s Ethical Standard as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

	<p>Materiality</p> <ul style="list-style-type: none"> • \$44.1 million • Based on 1% of total assets.
	<p>Audit scope</p> <ul style="list-style-type: none"> • We performed a full scope audit of the company’s financial statements, based on materiality levels.
	<p>Key audit matters</p> <ul style="list-style-type: none"> • Recoverability of loans to group undertakings.



The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Recoverability of Loans to group undertakings</i></p> <p>Refer to Note 1 (Significant accounting policies), Note 3 (Critical accounting judgements and estimation uncertainty), Note 9 (Loans to group undertakings) and Note 11 (Financial Instruments and risk management) to the financial statements.</p> <p>The company acts as a finance company for the Allegion plc group and holds a portfolio of intercompany loans.</p> <p>We focused on this area because loans to other companies in the Allegion plc group are material to the company balance sheet as at 31 December 2019 and the assessment of recoverability requires judgement and estimation by management.</p>	<p>We obtained intercompany agreements and confirmed the amount of the loans to group undertakings included in the company's records with the amounts recorded by the parent company and fellow group undertakings to test the existence of the financial assets and the accuracy of the positions recorded.</p> <p>We considered whether there were any impairment indicators, including considering the ability of the parent and the fellow group undertakings to meet payments falling due to the company.</p> <p>We also discussed with management their approach to credit and liquidity risk management including their assessment of the debt servicing capacity of the Group undertakings.</p> <p>The results of our testing were satisfactory.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

We performed a full scope audit of the company's financial statements, based on materiality levels.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<i>Overall materiality</i>	\$44.1 million.
<i>How we determined it</i>	1% of total assets.
<i>Rationale for benchmark applied</i>	Having considered the key users of the financial statements and the primary function of the company being to manage a portfolio of loans to group undertakings, we believe that total assets provides us with an appropriate basis for determining materiality.



We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$2.2 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below:

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
- Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on pages 4 and 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.



Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:

https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf

This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.

Other exception reporting

Directors' remuneration and transactions

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Other matter

The financial statements for the year ended 31 December 2018, forming the corresponding figures of the financial statements for the year ended 31 December 2019, are unaudited.

A handwritten signature in black ink, appearing to read 'A. Hayden'.

Alisa Hayden

for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
3 June 2020

Allegion (Ireland) Finance Designated Activity Company
PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2019

	Note	2019	2018
		\$m	\$m
Interest income	4	30.9	—
Interest expense	5	(30.3)	—
Net interest income		0.6	—
Administrative expenses		(0.1)	—
Profit on ordinary activities before taxation	6	0.5	—
Tax on profit on ordinary activities	8	—	—
Profit for the financial year		0.5	—

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	2019	2018
	\$m	\$m
Profit for the financial year	0.5	—
Total comprehensive income for the year	0.5	—

Allegion (Ireland) Finance Designated Activity Company
BALANCE SHEET
As at 31 December 2019

	Note	2019 \$m	2018 \$m
Non-current assets			
Loans to group undertakings	9	3,279.3	—
		<u>3,279.3</u>	<u>—</u>
Current assets			
Loans to group undertakings	9	1,112.4	—
Cash at bank and in hand		23.0	—
		<u>1,135.4</u>	<u>—</u>
Creditors: amounts falling due within one year	10	(30.4)	—
Net current assets		<u>1,105.0</u>	<u>—</u>
Total assets less current liabilities		<u>4,384.3</u>	<u>—</u>
Creditors: amounts falling due after more than one year	10	(4,383.8)	—
Net assets		<u>0.5</u>	<u>—</u>
Capital and reserves			
Called up share capital presented as equity	12	—	—
Profit and loss account		0.5	—
Equity shareholders' funds		<u>0.5</u>	<u>—</u>

Approved by the Directors on 2 June 2020 and signed on its behalf by:

Paul O'Loughlin

Paul O'Loughlin
Director

David Carrick

David Carrick
Director

Allegion (Ireland) Finance Designated Activity Company
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Called up share capital	Profit and Loss Account	Total
	\$m	\$m	\$m
At 1 January 2018	—	—	—
Shares issued during the year	—	—	—
At 31 December 2018	—	—	—
Shares issued during the year	—	—	—
Profit for the financial year	—	0.5	0.5
At 31 December 2019	—	0.5	0.5

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The entity financial statements have been prepared on the going concern basis and in accordance with Generally Accepted Accounting Practice in Ireland (applicable accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland and the Companies Act 2014). The entity financial statements comply with Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102).

The directors have formed a judgment at the time of approving the financial statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion, the directors have taken account of current and anticipated uncertainties driven by the COVID-19 pandemic in its going concern assessment including the recoverability of its intercompany loan receivable portfolio and its ability to pay or discharge all its debts, other liabilities, obligations and expenses as they fall due. The directors believe that these uncertainties would not have a material impact on the Company's ability to continue as a going concern as of the approval date.

The financial statements of the entity present the profit and loss account and balance sheet on a stand-alone basis, including related party transactions. The financial statements have been prepared under the historical cost convention.

The Company is a qualifying entity for the purposes of FRS 102. Note 16 gives details of the Company's holding company and from where its consolidated financial statements prepared in accordance with applicable Irish law and accounting principles generally accepted in the United States of America (U.S. GAAP) as defined in Section 279 (1) of the Companies Act 2014, may be obtained.

As a qualifying entity the Company has availed of a number of exemptions from the disclosure requirements of FRS 102 in the preparation of the financial statements as follows:

- The requirements of section 7 and paragraph 3.17(d) to present a statement of cash flows; and
- The requirement of Section 33 Related Party Disclosures paragraph 33.7 in relation to key management personnel compensation.

FUNCTIONAL CURRENCY

The company's functional and presentation currency is the US dollar, denominated by the symbol "\$". The financial statements have been presented in millions of US dollars (\$m) unless otherwise stated.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions. At the end of each financial year, foreign currency monetary items are translated to US dollars using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined. The resulting exchange differences are dealt with in the profit and loss account.

TAXATION

Corporation tax is provided on taxable profits at the current rates. Deferred taxation is accounted for in respect of all timing differences at tax rates enacted or substantially enacted at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in tax computations in years different from those in which they are included in the financial statements. A deferred tax asset is only recognised when it is more likely than not the asset will be recoverable in the foreseeable future out of suitable taxable profits from which the underlying timing differences can be recovered.

CASH AT BANK AND IN HAND

Cash at bank and in hand includes cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

FINANCIAL INSTRUMENTS

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets consist entirely of cash at bank and in hand and loans to group undertakings.

Cash at bank and in hand is initially recognised at transaction price and is subsequently carried at amortised cost using the effective interest method. The effective interest rate for cash at bank and in hand is zero.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Loans to group undertakings constitute a financing transaction. Loans are recognised at fair value on initial recognition and subsequently they are carried at amortised cost using the effective interest rate method.

At the end of each reporting year, financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the profit and loss account.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the profit and loss account.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities consist entirely of loans from group undertakings and trade creditors.

Loans from group undertakings constitute a financing transaction. Loans are recognised at fair value on initial recognition and subsequently they are carried at amortised cost using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method. Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

INTEREST INCOME AND EXPENSE

Interest income represents the return on loans to group undertakings and is recognised in the profit and loss account as it accrues using the effective interest rate method.

Interest expense on loans from group undertakings is recognised in the profit and loss account as it accrues using the effective interest rate method.

CASH FLOW STATEMENT

The Company has not presented a separate cash flow statement as it has availed of the exemption available under FRS 102 section 1.12 (b). This exemption is available as 100% of the Company's voting rights are controlled within the Allegion group and the consolidated financial statements of Allegion Plc (in which the Company is included) are publicly available.

2. HISTORY AND DESCRIPTION OF THE COMPANY

The Company was incorporated in Ireland on 17 May 2016. The Company is a wholly owned subsidiary of Allegion Plc. The principal activity of the Company is to provide financing to entities within the Allegion group. The Company's registered address is Block D, Iveagh Court, Harcourt Road, Dublin 2, Ireland. The Company's registration number is 582665.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As discussed above in the directors' report, the principal risks identified by the Company relate to (i) the recoverability of its intercompany loan receivable portfolio and (ii) the interest rate risk associated with the different LIBOR reset dates on the Company's loans from group undertakings and its loans to group undertakings. If LIBOR or other applicable base rates associated with the Company's loans fluctuate in the future, the Company's interest income/expense could decrease/increase impacting the Company's profit on ordinary activities before taxation.

The Company assess at each reporting date the recoverability of its loan receivable portfolio. The Company also assess the appropriateness of the measurement criteria in light of the underlying contractual terms and conditions. Any other non-principal risks identified by the Company have been disclosed in Note 11.

4. INTEREST INCOME

	2019	2018
	\$m	\$m
Interest on loan to parent undertaking	1.2	—
Interest on loans to group undertakings	29.7	—
Interest income	<u>30.9</u>	<u>—</u>

During the year ended 31 December 2019, the Company recorded interest income of \$30.9 million on its loan receivable portfolio. (2018: interest income of \$nil).

5. INTEREST EXPENSE

	2019	2018
	\$m	\$m
Interest on amounts owed to group undertakings	30.3	—
Interest expense	<u>30.3</u>	<u>—</u>

During the year ended 31 December 2019, the Company recorded interest expense of \$30.3 million relating to interest on amounts owed to group undertakings. (2018: interest expense of \$nil).

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2019	2018
	\$m	\$m
Profit on ordinary activities before taxation is stated after charging:		
Auditor's remuneration	—	—

Auditor's remuneration (including expenses) amounted to \$37,000 (2018: \$nil) and relates to the audit of the entity financial statements only. No fees for other assurance engagements, tax advice or non audit services have been incurred in the year.

7. EMPLOYEE COSTS

During 2019, Allegion Plc seconded one employee to the Company. The costs associated with seconded employee will be borne by Allegion Plc. During 2018, there were no persons employed in the Company, including executive directors. The directors received no remuneration for their services to the Company during 2019 and 2018. The directors and secretary had no disclosable interests in the shares of the Company, or any other group company, as defined in the Companies Act 2014 at 31 December 2019 or 31 December 2018.

8. TAXATION

Tax on profit on ordinary activities

	2019	2018
	\$m	\$m
Irish corporation tax on profit for the year	—	—
Current tax charge for the financial year	<u>—</u>	<u>—</u>

The current tax charge for the year differs from the tax calculated at the standard rate of Irish corporation tax (12.5%). The differences are explained below:

	2019	2018
	\$m	\$m
Profit on ordinary activities before tax	0.5	—
Profit on ordinary activities multiplied by the Irish corporation tax for the year of 12.5%	0.1	—
<i>Effects of:</i>		
Group relief of management expenses	(0.1)	—
Current tax charge for the year	<u>—</u>	<u>—</u>

9. LOANS TO GROUP UNDERTAKINGS

	2019	2018
	\$m	\$m
Amounts falling due within one year:		
Amounts owed from parent undertaking	1.2	—
Amounts owed from other group undertakings	1,111.2	—
	<u>1,112.4</u>	<u>—</u>
Amounts falling due after more than one year:		
Amounts owed from parent undertaking	364.6	—
Amounts owed from other group undertakings	2,914.7	—
	<u>3,279.3</u>	<u>—</u>
Total loans to group undertakings	<u>4,391.7</u>	<u>—</u>

On 25 November 2019, the Company acquired an intercompany loan receivable portfolio from fellow group undertakings. At 31 December 2019, the Company had loans to group undertakings (inclusive of interest accrued) of \$4,391.7 million.

At 31 December 2019, loans to group undertakings falling due within one year (inclusive of interest accrued) amounted to \$1,112.4 million and are unsecured and have interest rates which range from 3.55% to 8.00%, resulting in a weighted average of 6.91%.

At 31 December 2019, loans to group undertakings falling due after more than one year amounted to \$3,279.3 million and are unsecured and have interest rates which range from 3.20% to 8.00%, resulting in a weighted average of 7.15%.

All loans to group undertakings are performing in accordance with their contractual conditions and are expected to be recovered. No loans to group undertakings were impaired at 31 December 2019.

The following table summarises the contractual terms of loans to group undertakings (inclusive of interest accrued) as at 31 December:

Loan Rate Type	Repayable Dates	Interest Rate	2019	2018
			\$m	\$m
Fixed interest rate loans	20 April 2021 to 31 January 2028	5.00% to 6.00%	90.2	—
Fixed interest rate loans	27 November 2020 to 1 November 2026	7.00% to 8.00%	3,496.4	—
Variable interest rate loans	20 July 2020 to 16 December 2022	3.20% to 3.55%	495.0	—
Variable interest rate loans	25 April 2020 to 15 October 2020	4.01% to 4.97%	310.1	—
			<u>4,391.7</u>	<u>—</u>

At 31 December 2018, the Company had no loans to group undertakings.

10. CREDITORS

	2019	2018
	\$m	\$m
Amounts falling due within one year:		
Accrued interest	30.3	—
Trade creditors	0.1	—
	<u>30.4</u>	<u>—</u>
Amounts falling due after more than one year:		
Loans from group undertakings	4,383.8	—
	<u>4,383.8</u>	<u>—</u>

At 31 December 2019, accrued interest of \$30.3 million related entirely to the interest incurred on Note A-1 and Note A-2 (collectively the “Notes”) held with a fellow group undertaking. The Notes were issued by the Company to a fellow group undertaking on 25 November 2019 and amounted to \$3,586.2 million and \$797.6 million, respectively. The Notes are listed on The International Stock Exchange (“TISE”).

10. CREDITORS (Continued)

At 31 December 2019, loans from group undertakings falling due after more than one year are unsecured, have interest rates which range from 3.34% to 7.70%, resulting in a weighted average of 6.91%. The Notes mature on 25 November 2029 and 25 November 2024, respectively.

Trade creditors principally comprise amounts outstanding for day to day purchases and ongoing costs and are payable at various dates in the next three months in accordance with the suppliers' usual and customary credit terms. The Company considers that the carrying amount of trade creditors approximates to their fair value.

At 31 December 2018, the Company had no loans from group undertakings or trade creditors.

11. FINANCIAL INSTRUMENTS AND RISK MANGEMENT

Interest rate risk

The Company's interest rate risk relates to the different LIBOR reset dates associated with the Company's loans from group undertakings and its loans to group undertakings. If LIBOR or other applicable base rates associated with the Company's loans fluctuate in the future, the Company's interest income/expense could decrease/increase impacting the Company's profit on ordinary activities before taxation.

In addition, as future fluctuations in LIBOR are not predictable or quantifiable the Company understands the importance of continuing to monitor the Company's loan portfolio and the impact fluctuations may have on the profit on ordinary activities before taxation.

At 31 December 2019, a 100 basis points (bps) strengthening/weakening of LIBOR on the Company's variable loan portfolio would have increased/decreased profits on ordinary activities before taxation by less than \$0.1 million.

Credit risk

The carrying amount of the Company's financial assets represents the maximum credit risk exposure. At year end, the carrying amount of financial assets is as follows:

	2019	2018
	\$m	\$m
Loans to group undertakings	4,391.7	—
Cash at bank and in hand	23.0	—
	<u>4,414.7</u>	<u>—</u>

Credit risk arises from loans to group undertakings and cash at bank and in hand. Other than cash at bank and in hand, all of the exposures relate to entities within the Allegion group. The Company does not expect any group undertaking to fail to meet its obligations and there have been no impairments or delayed payments attached to the loans to group undertakings during the year ended 31 December 2019.

The Company also has procedures in place to minimize the risk of impairment through assessing the financial condition of the group undertakings to ensure that safeguards are put in place, when required. On an on-going basis, the Company continues to monitor the financial conditions of the fellow group undertakings and manage safeguards, when required. The Company monitors the timing of cash flows to ensure proceeds from loans to group undertakings are available before any liabilities fall due.

In relation to cash at bank and in hand, the Company has a policy of only investing their cash with investment grade banks.

Liquidity risk

The liquidity risk faced by the Company relates to the inability of other group undertakings to repay loans including interest as they fall due. This will in turn impact the ability of the Company to (i) meet the cash flow requirements of other group undertakings and (ii) repay loans from group undertakings (inclusive of interest accrued) as they fall due. In order to manage this risk, the Company monitors the cash flow requirements of the group.

11. FINANCIAL INSTRUMENTS AND RISK MANGEMENT (Continued)

The following table sets out the contractual maturities of financial liabilities of a similar nature, including the interest payments associated with the loans from group undertakings at 31 December 2019. At 31 December 2018, the Company had no loans from group undertakings.

	Carrying amount	Contractual cash outflows	Within 1 year	1 - 2 years	2 - 5 years	After 5 years
31 December 2019	\$m	\$m	\$m	\$m	\$m	\$m
Accrued interest	30.3	30.3	30.3	—	—	—
Loans from group undertakings	4,383.8	7,290.6	85.4	310.7	1,735.8	5,158.7
	4,414.1	7,320.9	115.7	310.7	1,735.8	5,158.7

Foreign currency risk

Foreign currency exposures arise mainly on the translation of foreign currency denominated liabilities and receivable balances into US Dollar, which is the Company's functional currency. As the principal activity of the Company is to provide financing to entities within the Allegion group, such exposures are principally managed by matching the currency of borrowings with the currency of amounts advanced to group undertakings. At 31 December 2019, no loans to or from group undertakings were denominated in a currency other than US Dollar.

12. CALLED UP SHARE CAPITAL PRESENTED AS EQUITY

	2019	2018
Authorised:	\$m	\$m
1,000,000 ordinary shares of \$1.00 par value	1.0	1.0
At 31 December	1.0	1.0
Allotted, called up and fully paid - presented as equity:	2019	2018
Ordinary shares of \$1.00 each	\$m	\$m
At 31 December - 1 share	—	—

The 1 issued ordinary share of the Company is directly owned by Allegion Plc, a company incorporated in Ireland.

The Company considers its capital and reserves to comprise of called up share capital and its profit and loss account. Movements in called up share capital and the profit and loss account during the year are disclosed in the statement of changes in equity.

13. RELATED PARTY TRANSACTIONS

The Company is wholly owned within the Allegion plc group. Transactions with Allegion plc and with other wholly owned subsidiary companies of Allegion Plc are not disclosed as the Company has taken advantage of the exemption available under FRS 102 Section 33.1A "Related Party Disclosures" from disclosing such transactions.

14. CONTINGENCIES AND COMMITMENTS

The Company had no capital commitments or operating lease commitments at the balance sheet date.

15. SUBSEQUENT EVENTS

Resignation of director

On 1 March 2020, Michael Wagnes a member of the Board of Directors of the Company resigned from the Board.

Appointment of director

On 1 March 2020, Thomas Martineau was appointed as a member of the Board of Directors of the Company.

15. SUBSEQUENT EVENTS (Continued)

COVID-19 pandemic

In March 2020, a global pandemic was declared by the WHO related to the rapidly growing outbreak of COVID-19. This pandemic has created significant uncertainties in the global economy. However, the Company does not believe there is any adjusting or non adjusting subsequent events which may impact the amounts recorded at 31 December 2019 including the carrying value and recoverability of its intercompany loan receivable portfolio. The COVID-19 situation is rapidly changing and additional impacts to the business may arise that the Company is not aware of currently.

Refinancing of term loan

In April 2020, the Company refinanced its \$25.0 million term loan with a group undertaking. The refinanced loan's maturity date is 25 April 2023 and the effective interest rate is 2.4975%.

Interest capitalisation

In April 2020, the Company capitalised \$118.6 million of interest accrued on the Notes owed to a group undertaking. The capitalised interest balance will be subject to the terms and conditions of the Notes.

There have been no other subsequent events since the year end which require disclosure in the financial statements.

16. ULTIMATE HOLDING UNDERTAKING AND CONTROLLING PARTY

The ultimate controlling party and the largest group of undertakings for which group financial statements are drawn up and of which the company is a wholly owned subsidiary is Allegion Plc., a company incorporated in the Republic of Ireland and listed on the New York Stock Exchange ("NYSE"). Copies of Allegion Plc consolidated financial statements are available on the Allegion website at www.allegion.com.

17. APPROVAL OF FINANCIAL STATEMENTS

The directors approved the financial statements on 2 June 2020.